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YOUR FINANCE MATTERS

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Coronavirus – a black swan event?

When the COVID-19 pandemic struck, the severity of its impact on global societies and economies was shocking. Yet critics are insisting that the repercussions could (and should) have been foreseen. Does this make it a 'black swan' event?

Originally coined by financial theorist and writer Nassim Nicholas Taleb, the term 'black swan' has come to denote any event that:

- Is extremely rare
- Has a severe impact
- Is unpredictable (although some may claim in hindsight that it could have been predicted).

Historic black swans

Examples of black swans from history include the Spanish flu outbreak (1918), Wall Street Crash (1929), 'Black Monday' (1987), the terrorist attacks on the World Trade Center (2001), the SARS outbreak (2003) and, more recently, the global financial crisis (2008).

Black swan – or not?

While it may seem a textbook case on the surface, some are arguing that COVID-19 does not constitute a black swan event. Severe impact? Undoubtedly. Rare? Perhaps. But unpredictable? Maybe not.

History shows us that significant outbreaks of infectious diseases do happen. What's more, Bill Gates, George W. Bush, Barack Obama – and Taleb himself – have all previously issued dire warnings about what could happen if we failed to prepare for future pandemics. Can we really say, then, that the coronavirus pandemic was completely unpredictable?

The COVID difference?

Those who say it is a black swan event have pointed to the unique brutality and speed with which the virus spread around the world and hit financial markets. In the words of one financial commentator: *"It has been incredibly fast-paced, faster than '29, faster than '87. The speed and ferocity has been utterly breathtaking."*

Even so, Taleb himself suggests that coronavirus does not fit his description of a black swan event. Yes, it has had a severe impact on the global economy and people's lives. But there are also multiple examples of serious global outbreaks from the 21st century alone – Ebola, SARS and the H1N1 influenza pandemic all spring to mind.

Weathering the storm

Black swan event or not, you can rely on us for advice and guidance on weathering any storms that lie ahead.

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Have you saved during lockdown?

If so, you're part of 37% of the UK population who managed to put away more money during lockdown, as daily expenditure on commuting and leisure activities dramatically decreased.

What's more, it looks like Britain's growing army of savers are here to stay, with 36% stating they aim to keep cutting costs post-lockdown[1].

Could savings rates harm your goals?
Unfortunately, this wave of savings enthusiasm has come at a time when interest rates are at rock bottom. The average instant access rate has plummeted, from rates savers enjoyed at the beginning of the year.

Make your savings work for you
There are still better rates out there – you might just have to shop around and work a bit harder to find them.

Take a long-term perspective
Interest rates fluctuate over time, so don't despair. We can help you manage your cash balances to achieve your personal savings goals.

[1]Nationwide, 2020

Are you on the ball? ScamSmart campaign targets football fans

In the last three years, over £30m has been lost to pension scammers, with losses ranging from under £1,000 to £500,000, with some rare cases topping the £1m marker. A new ScamSmart campaign is aimed at football fans, after discovering they are highly likely to be drawn in by fraudsters targeting long-term pension savings.

Research[2] found that just 43% of football fans approaching retirement knew how much was in their pension pot, with 45% not knowing how to check if an approach about their pension was legitimate. This compared to 76% knowing the cost of football-related items, such as a season ticket.

Teaming up with football commentator Clive Tyldesley, the Financial Conduct Authority (FCA) and The Pensions Regulator have reminded savers to check who they are dealing with before making any changes to their pension arrangements, reject any unwanted offers and to get advice.

Clive Tyldesley commented, *"Scammers are very good at breaking down your defences and putting you under pressure with various deadlines. But your pension isn't a football transfer – there are no deadlines! Your favourite team wouldn't buy a new striker just because his agent says he's good. They'd ask around, check out his stats, do some research – just like you should when handling your pension plans. Before you fall foul to savvy scammers, remember to take your time, seek advice, and speak to an FCA-authorised adviser. Don't agree to anything you're unsure of."*

Animal lovers lose £300k

During March and April, Action Fraud reported 669 people lost a combined total of £282,686 in deposits paid for pets advertised online, which didn't even exist. Criminals took advantage of lockdown restrictions to justify why the fraud victims were unable to visit their prospective pet before committing to the purchase. After paying the initial deposit, more funds were typically requested to cover insurance, vaccinations and delivery of the pet.

Private pension age rise confirmed

In September, the government confirmed the private pension age will increase from 55 to 57 in 2028, meaning those retiring in future will have to wait longer to access their pension.

[2]FCA, 2020

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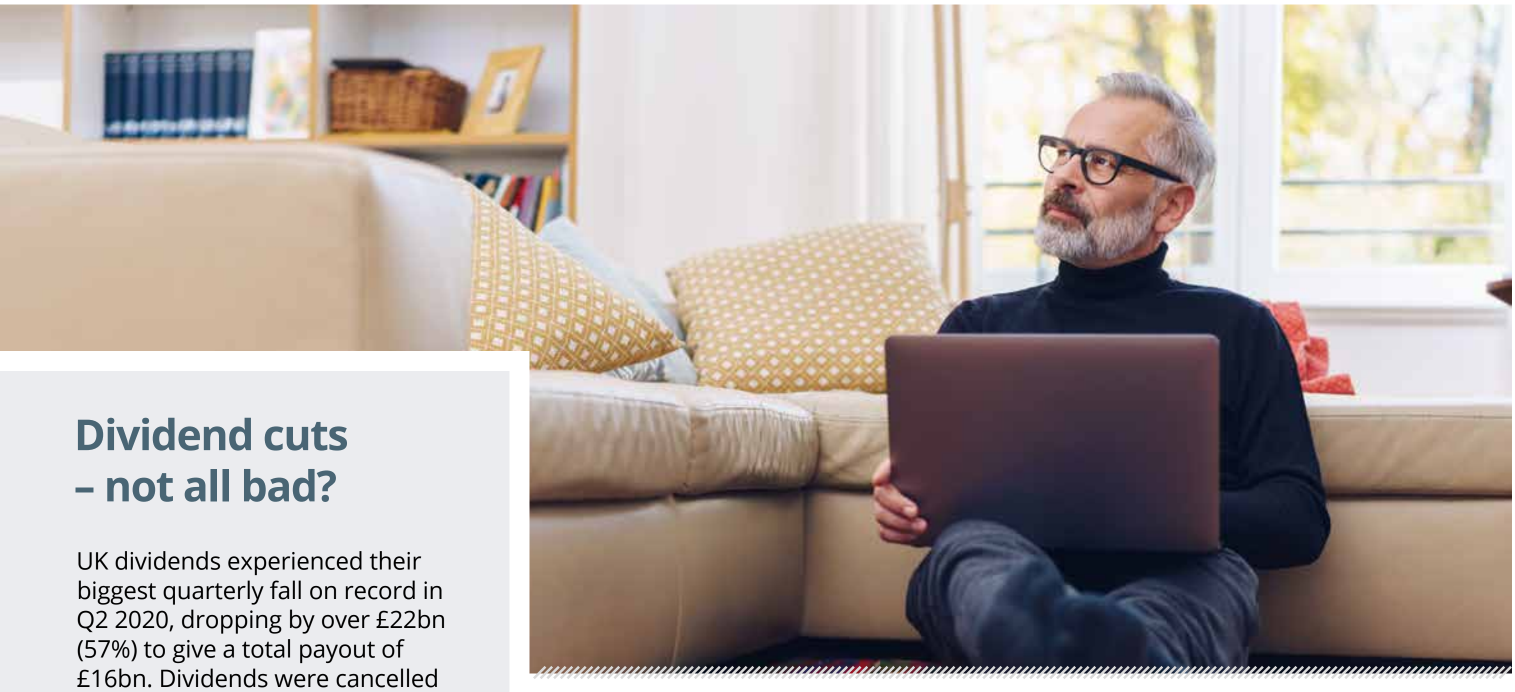

Dividend cuts – not all bad?

UK dividends experienced their biggest quarterly fall on record in Q2 2020, dropping by over £22bn (57%) to give a total payout of £16bn. Dividends were cancelled by 176 companies and reduced by at least a further 30. BP cut its dividend for the first time in a decade, with a 50% reduction to 5.25 cents a share, compared to 10.5 cents in Q1.

Despite an array of dividend cuts in the wake of the pandemic and the subsequent impact on income, a contingent of fund managers see these cuts as prudent moves by the businesses who have made them to preserve their capital expenditure in the short-term:

"The rebasing of dividends across the UK stock market is an opportunity for companies to reallocate capital more sensibly."

Carl Stick, Rathbone Unit Trust Management

"In ordinary times, a dividend cut is a sign of failure. In these exceptional circumstances, however, it reflects sensible short-term capital allocation."

Martin Cholwill, Royal London

"The pandemic has resulted in a great deal of uncertainty for all businesses. Even those whose trading has been unaffected, have still faced issues with supply chains and distribution networks. So, reducing capital expenditures like dividends is prudent. There have been some big cuts but what is key is what happens over the longer term. Dividends will be back, but for now, balance sheets and liquidity are paramount."

Richard Colwell, Columbia Threadneedle

Age 20 or 50+? Maintain your retirement focus

Research[3] has revealed that almost a fifth of people aged 50 or over believe their retirement will be affected by the pandemic. Of these, a quarter say they have not been able to retire due to their finances, a fifth have had to use some of their retirement savings whilst out of work and a tenth have retired sooner than expected due to redundancy.

Playing catch up
Separate data[4] shows employees in certain industries, who were already struggling to save into a pension, could be particularly hard-hit and face a lifetime of 'playing catch up' with their retirement savings. More than a quarter of those working in travel and the arts have not yet started saving into a pension, while two-thirds of retail workers are concerned they would soon run out of money if they did retire.

The impact of auto enrolment
It's not all doom and gloom, however. Thanks to auto enrolment, more than 10 million people have saved into a workplace pension, and those putting away the minimum has reached a record high. However, there are signs the positive impact of auto enrolment is starting to wane, with almost half of 22 to 29-year-olds still not doing enough to prepare for later life and many potentially facing retirement poverty.

It's all about you
It's never too early or too late to get your retirement plan on track, whatever stage you're at and whatever sector of the economy you work in.

If you're younger, don't allow any dips in income to impact your pension contributions if at all possible. Small, frequent contributions throughout your life add up and make a difference to the quality of your retirement. If you're older, you may be considering postponing retirement or if you lose your job, you might choose to retire earlier than you had originally intended. If you still have a job but your savings have been impacted, delaying retirement to give yourself more time to prepare may be an option.

Don't rush into making life-changing financial decisions
Of course, it all depends on your individual circumstances. The key takeaway is that for many people, decisions about their retirement, now more than ever, have been driven by the financial impact of the pandemic, rather than personal choice. We want you to be able to call the shots, to be in control of your retirement and to have options. Whatever your circumstances, we're here for all your financial planning needs.

[3]Co-op, 2020, [4]Scottish Widows, 2020

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Are you on your best investor behaviour?

In uncertain times, where we've witnessed periods of stock market volatility, it's easy to let emotions influence investment decisions, but a good strategy for investors to adopt is not to react hastily. Human instinct is to be responsive, so traversing these behavioural biases can be challenging, but once mastered, resisting the urge to flight can be rewarding.

Unlike prehistoric times, when the fight or flight reaction meant the difference between life and death in the face of a carnivorous dinosaur on the prowl, survival depended on quick pattern recognition and decisive action. As an investor, controlling these hard-wired behavioural biases and learning to resist the urge to panic, can bear fruit.

Take stock market volatility in March this year as an example. Retail investors sold investment funds worth £10bn in just one month[5], with many selling just as the stock market was falling to its lowest level in eight years. In doing so, they missed out on the subsequent market bounce of almost 30%. If hindsight is a marvellous thing, by its very definition, foresight is insight gained by looking forward. In other words, when it comes to investing, look forward, because markets tend to bounce back over time, though it can't be guaranteed.

Different drivers

A number of factors lead people to respond differently to market occurrences – what your objectives are, your risk tolerance, beliefs, preferences, emotions and past experiences, can all result in different investor behaviour. One event, such as a market fall, can lead to different behaviours; ceasing investing until markets stabilise, selling in case it's the beginning of a market downturn, or contrarian investors may see the correction as an opportunity to invest. Some beliefs could lead to successful investment outcomes, others could result in behavioural biases that are counterproductive and endanger the prospect of successfully achieving your objectives.

Managing behavioural biases

As humans, we all suffer from some biases. The best defence mechanism to safeguard from knee-jerk reactions and defend against the influence of your biases, is to follow a robust, objective and disciplined process, and that's where we come in. In addition to having a well-thought-out investment process, investing with a clear idea of what you want to achieve, will determine how we structure your investments. Whether you are building your retirement nest egg or a fund to put children through university, you have a better chance of achieving your goals if they are used to frame all investment decision-making.

Foresight

You can rely on us; we take the time to understand your objectives, apply a rigorous investment process and advise you on the investment strategies and products most appropriate for you.

[5] The Investment Association, 2020

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Titanic disaster led to historic life insurance payouts

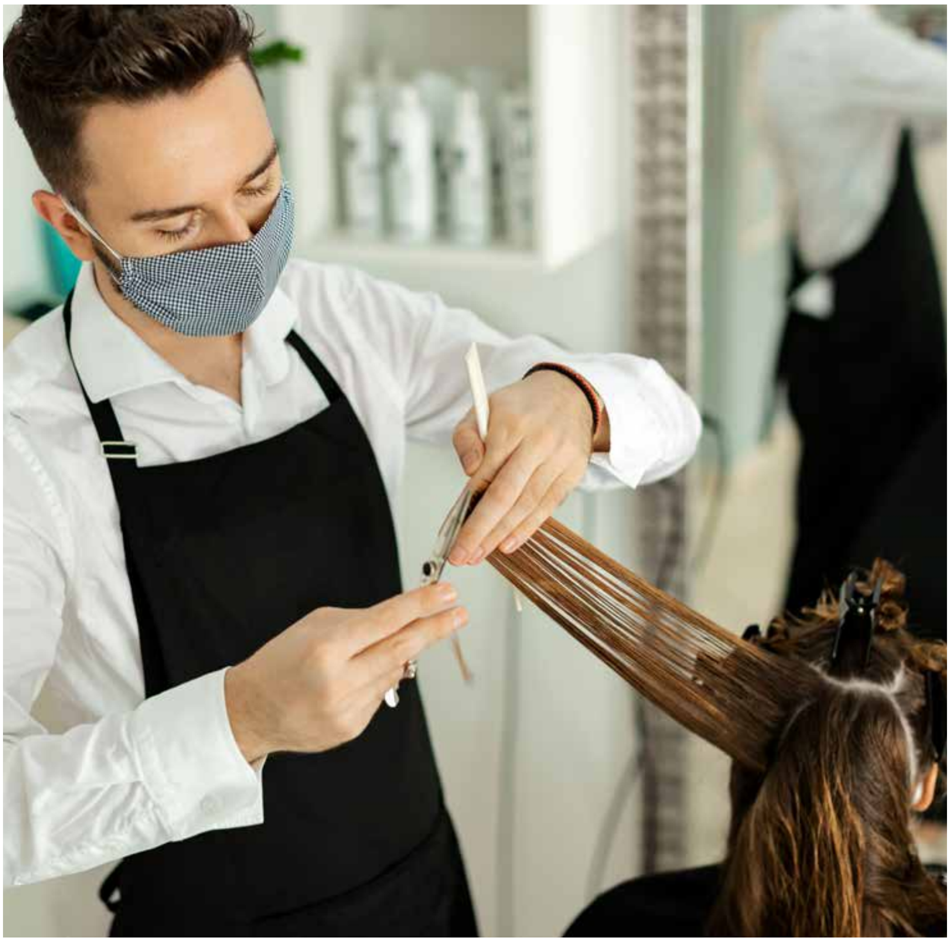
When the 'unsinkable' Titanic hit an iceberg and sank in 1912, life and accident insurance companies lost $3,464,111, according to a contemporary article published in The Shore Press.

The accident led to some of the largest insurance payouts ever, with the beneficiaries of business magnate John B. Thayer receiving a total accident insurance payout of $120,000 (equivalent to around $3.2m today) from insurance firm Travelers and his widow on the receiving end of a $50,000 life insurance payout (around $1.3m today).

According to another article from 1912, Herbert F. Chaffee of North Dakota held the largest life insurance policy of all those who perished, with his beneficiaries receiving a staggering $146,750 (around $3.9m today)!

No less relevant today
The Titanic may have been considered as a once-in-a-lifetime disaster, but recent events show us that life insurance is every bit as important in 2020 as it was in 1912. The coronavirus pandemic has led to the tragic loss of over 40,000 lives in the UK alone, with many grieving families left financially devastated.

Peace of mind
Don't leave your family's future to chance. Life insurance is often cheaper than many think and ensures your dependants will be financially secure if the worst should happen.



The intergenerational impact of coronavirus

The pandemic has touched the lives of billions of people. Everybody, it seems, has been impacted in some way.

However, evidence shows that the pandemic has affected different age groups in very different ways. A recent report[6] indicates that although older generations have suffered the greatest health impact, young people have borne the social and financial brunt of the outbreak.

The FCA agreed that younger people have been among the worst hit financially, attributing this to their disproportionate likelihood to work within sectors most affected by the crisis, including retail, leisure and hospitality.

Younger and older workers face significant challenges
Recent data[7] confirms that this intergenerational pattern extends into the workplace. Younger (under 25) and older (50+) workers face different, but very real, challenges, with under-25s far more likely to be furloughed and over-50s more exposed to health risks due to their higher presence in sectors containing 'key workers'.

Compounding the financial difficulties of younger people, severe disruption to education and training opportunities will make it harder for them to achieve employment in a depressed jobs market.

'Middle' age groups comparatively unharmed
Those between the ages of 25 and 50 are therefore less likely to be impacted by the financial and health risks of the pandemic. These generations are more likely to own their own homes, work in sectors less vulnerable to shut down, and are less at risk of severe health repercussions.

[6]OECD, 2020, [7]Business in the Community, 2020

ISA – 21 not out

When the Individual Savings Account (ISA) was launched in 1999, the allowance was £3,000 for a cash ISA or £7,000 for a stocks and shares ISA each tax year. Now at the grand old age of 21, the overall allowance has risen to a generous £20,000.

In the early days, choice was limited to either a cash ISA or a stocks and shares ISA, but the range has been extended over time and the total investment of £20,000 can be spread across different types of ISA. Any investment growth is tax free.

First investment route
Junior ISAs (JISAs), introduced in 2011, can be opened by parents or a guardian with parental responsibility for a child from birth. Once opened, anyone can pay into the JISA, but the child is unable to access the cash until they reach the age of 18. The JISA annual allowance per child was almost doubled to £9,000 per tax year at the Budget in March.

ISAs have proved a popular investment choice over the years; recently released government figures show around 11.2 million adult ISA accounts and around 954,000 JISAs were subscribed to in the 2018–19 tax year, with new investments totalling around £67.6bn and £974m, respectively.

Are you looking to invest tax efficiently, either through a lump sum investment or regular savings? If so, get in touch.

Small island living – rediscovering what we already have

In recent weeks, there has been an 800% rise in Brits searching for 'Staycation UK', as the uncertainty surrounding international travel during the pandemic continues to prevail[8].

Appreciating what you already have...
Destinations such as Plymouth, the Isle of Wight and Exeter are expected to recover quickly due to the staycation tourism boost, according to new research[9]. It would seem that the pandemic is allowing Brits to rediscover and appreciate the thousands of beautiful destinations that we already have on our doorstep.

...including your finances!
This attitude of appreciating what we have extends to our finances. Over the years, life gets busy and it's easy to lose track of our money. A reported one in five savers have lost track of a pension pot – and the situation is likely to get worse. Meanwhile, other research[10] suggests that 43% of us have lost track of a bank account, 17% don't know what's happened to their Premium Bonds and 15% have been separated from an ISA – leaving them needlessly out of pocket.

In these troubled financial times, taking stock of your finances and appreciating what you have can give you a sense of financial control during a period of uncertainty.

Time for a financial review
If you feel like you've lost your grip on your finances, undertaking a review can help you make the most of what you've already got. So, before you set off on an autumn break to rediscover a favourite UK holiday spot, contact us to get reacquainted with your finances.

[8]Staysure, 2020, [9]Colliers International, 2020, [10]NS&I, 2018

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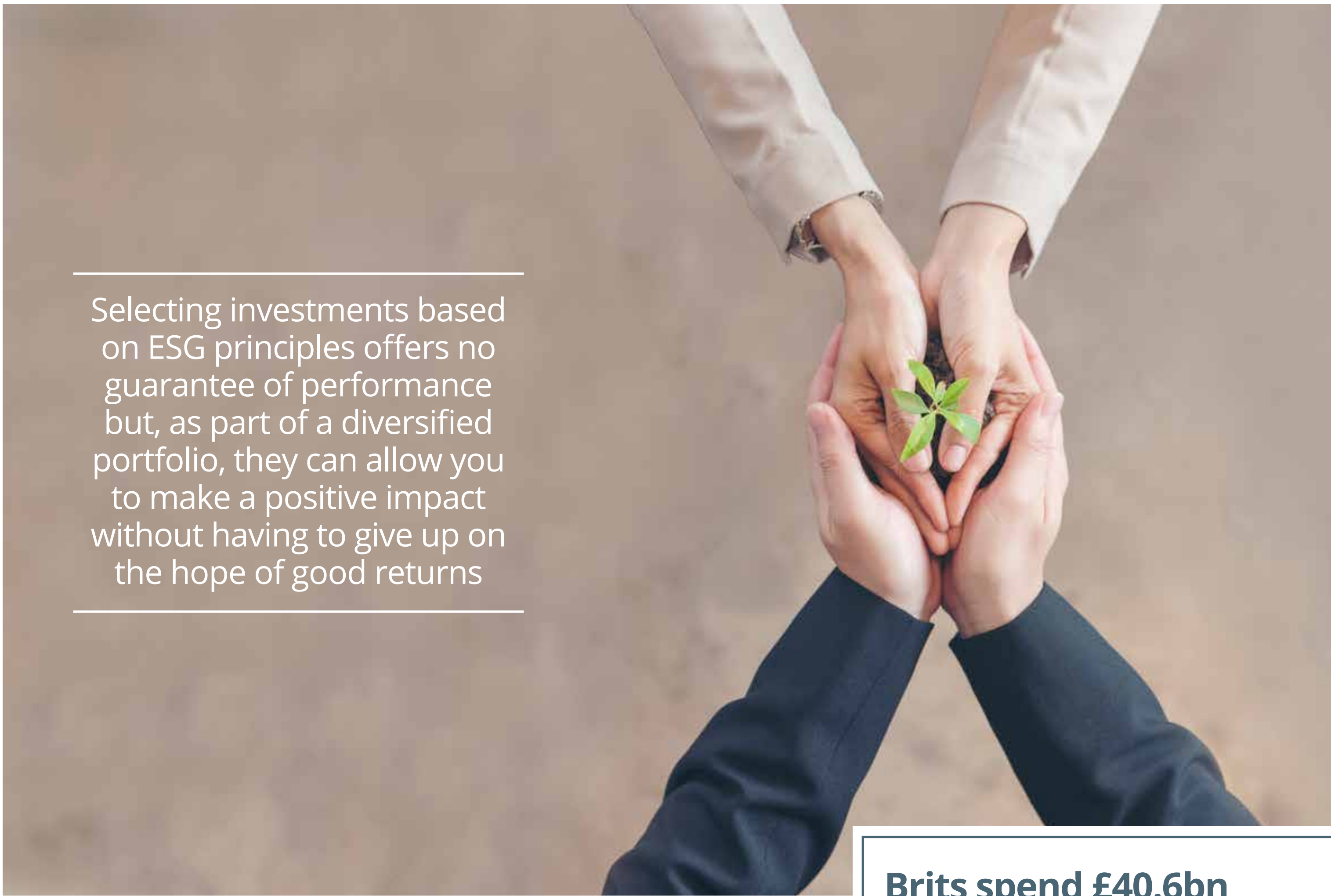

Selecting investments based on ESG principles offers no guarantee of performance but, as part of a diversified portfolio, they can allow you to make a positive impact without having to give up on the hope of good returns

A turning point for ESG investing?

Investing according to environmental, social and governance principles (ESG) has been a fast growth area, according to figures[11], UK-based ESG funds saw record inflows between March and July 2020, with £362m invested in July alone.

What is ESG?
The acronym, ESG, refers to three key factors used by investment companies to evaluate corporate behaviour:

- Environmental criteria – such as: carbon emissions, waste management and air/water pollution
- Social criteria – such as: human rights, labour standards and data security
- Governance – such as: board diversity, business ethics and executive remuneration.

By assessing these factors, investment companies measure the sustainability and ethical impact of an investment.

ESG has developed from Ethical Investing using positive screening to be a focus for individual companies, countries and therefore for investors.

Risk and performance
In the early days of sustainable and ethical investing there was a perception that investors were putting principles before profit, with such investments generally considered to be higher risk than their traditional counterparts. Nowadays, with a much wider choice of ESG products available, this style of investing is capable of generating long-term stable and sustainable returns.

A matter of principle
Selecting investments based on ESG principles offers no guarantee of performance but, as part of a diversified portfolio, they can allow you to make a positive impact without having to give up on the hope of good returns.

[11]Reuters, 2020

Brits spend £40.6bn on lockdown entertainment

According to Barclaycard Payments[12], the UK population spent £40.6bn, or a staggering £771.34 each, on dispensable items to alleviate lockdown boredom.

The ordinary...
Popular purchases included takeaways (24%), summer clothes (19%) and garden plants and flowers (16%) – but not everybody was so conventional.

And the bizarre
Topping the list of the weirdest items purchased by lockdown consumers were an inflatable pub, an antique diving suit, a penny farthing bicycle and a piece of the moon!

Satisfied customers
Most customers proclaimed themselves satisfied with their lockdown purchases, with only 6% regretting their expenditure.

[12]Barclaycard Payments, 2020

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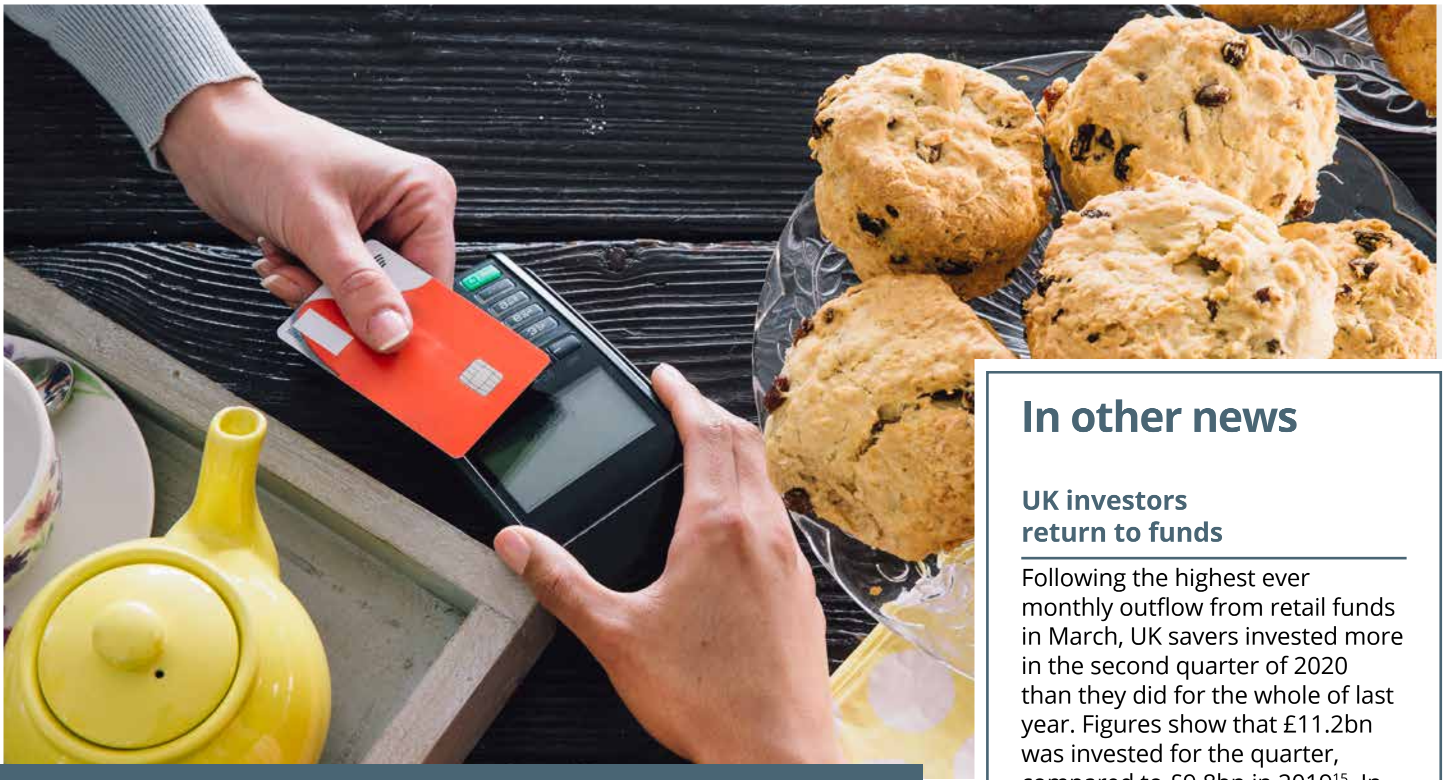

Kiss your cash goodbye

"Sorry, we don't accept cash" has become a familiar refrain in shops and eateries in recent months due to fears that handling cash could accelerate the spread of the virus. So, are we on our way to a cashless society?

Predictions of the death of cash are not solely a result of the pandemic. Discourse surrounding the 'cashless society' pre-dates lockdown by many years and trends such as the introduction of online and mobile banking, the disappearance of ATM machines and the rise of contactless payments have long been features of modern society.

A 100% cashless society assumes that every person has the means, technological know-how and ability to pay by card for every transaction

The cashless society?
There is no doubt that the pandemic has accelerated this trend, with credit and debit card usage soaring. The maximum contactless spend was recently upped to £45 to facilitate this, with 66% of Mastercard transactions in the UK now contactless and 45% of people stating they have used cash less during the crisis[13].

However, research states that cash is still a necessity for 25 million people[14]. A 100% cashless society assumes that every person has the means, technological know-how and ability to pay by card for every transaction. So, while the grip of cash on Britain is undoubtedly being eroded, it will be important to maintain access to cash for certain groups of society, including the elderly.

13Mastercard, 2020, 14Age UK, 2020

In other news

UK investors return to funds

Following the highest ever monthly outflow from retail funds in March, UK savers invested more in the second quarter of 2020 than they did for the whole of last year. Figures show that £11.2bn was invested for the quarter, compared to £9.8bn in 2019[15]. In June, global shares were the best-selling geographic region, with net retail sales of £930m.

CGT overhaul on the cards?

Over the summer, the Chancellor, Rishi Sunak commissioned a review of Capital Gains Tax, to determine whether the current system is fit for purpose and to identify simplification opportunities. The Office of Tax Simplification (OTS) has published an online survey and call for evidence. They will explore the applicable rates, reliefs, exemptions, allowances and overall scope of the tax, in addition to its role in respect of the position of estates in administration, potential distortions to taxpayers' investment decisions and the selling or winding up of unincorporated businesses.

The OTS commented in their call for evidence, there have been, *'several changes to CGT'* over the last 10 years and that it *'may be helpful to consider the tax again in the current climate.'*

We will keep you up to date on any developments

15The Investment Association, 2020

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Financial lifeboat for large balances

The Financial Services Compensation Scheme (FSCS) has extended its protection for savers amid concerns that the pandemic has increased the likelihood of financial firms failing.

The fund currently protects deposits with UK banks, building societies and credit unions to the tune of £85,000 per person. However, there is additional protection for consumers who temporarily have high balances of up to £1m. Having such a large balance for a relatively short period of time could be unavoidable for reasons such as a house sale, divorce settlement, insurance payout or redundancy.

These temporary high balances are normally protected for six months and the FSCS would automatically pay compensation if the financial institution failed. From 6 August 2020, the FSCS has extended its coverage to 12 months, with the scheme reverting to a six-month cover period from 1 February 2021.

The FSCS has introduced the temporary extension due to consumers' concerns that money could be on deposit for longer, due to a slowdown in the banking system and reduced access to banking services for many people.

Getting financially fit for a new way of life

With millions of people having been affected financially by the pandemic, it's possible that your finances no longer match your lifestyle and needs, so take some time to review your situation to keep on track.

Budget and debt planning
– Regularly review your income and outgoings, particularly if your circumstances have changed; also make sure you prioritise clearing any debt you have, including credit card balances.

Build a financial safety net
– Start saving asap. If you have been fortunate enough to save in lockdown, channel some into a savings account, considerable peace of mind can be gained from having a minimum of three to six months' income as a buffer.

Strengthen your safety net
– For you and your family, protection policies such as income protection and life insurance should be considered. If you already have policies in place, review them to ensure they still offer the most suitable cover.

Look to the future – Don't let short-term events divert you from plans for the future. Investing into a pension, no matter what age you are, is imperative.

If you have any questions, talk to us. We can help you see the bigger picture, weigh up all your options and make a balanced plan for your individual needs.

Child Trust Funds' coming of age

Child Trust Funds (CTFs) are long-term tax-free savings accounts that were set up by the government for every child born between 1 September 2002 and 2 January 2011. Over 6 million CTFs were opened, with the first of these maturing in September 2020. Every year between now and January 2029, the government estimate that 800,000 18-year-olds will receive access to their matured funds. Parents or guardians of qualifying children were sent a starting payment voucher from the government of either £250 or £500, depending on the household income, for investment. Children whose seventh birthday fell between September 2009 and July 2010 also received a second payment of a similar amount, while parents, family and friends have been able to make additional contributions. Although most accounts are likely to contain a few hundred or a thousand pounds, in cases where extra contributions were made, sums will be higher. We can help recipients assess their options at maturity.

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Where now for the global economy?

With the release of Q2 data over the summer, the full extent of the impact COVID-19 has had on the global economy became apparent, as a succession of countries reported record falls in output, with lockdowns causing inevitable and acute economic disruption.

Although uncertainties surrounding the pandemic are still inflicting economic stress across the globe, there are signs that the worst may be over. Many economists believe the sharpest declines are now consigned to history, but the likely pace of recovery remains unclear.

On home shores

Preliminary Q2 gross domestic product (GDP) statistics show the UK economy was hit particularly hard, with a 20.4% reduction in output in Q2 compared with Q1. The country's largest ever quarterly decline pushed the UK into its first technical recession since the financial crisis.

Around the globe

Output across the Eurozone shrank a record 12.1% during Q2, with Spain suffering the largest decline, its economy shrinking by 18.5%. France and Italy were also badly hit, with quarterly declines of 13.8% and 12.4%, respectively.

Preliminary estimates for the US suggest the world's largest economy shrank at an annualised rate of 32.9% in Q2, the sharpest decline since government records began in 1947.

In Japan, the world's third-largest economy, GDP fell by 7.8% in Q2, which represents the fastest quarterly rate of decline since comparable figures were first recorded back in 1980.

A tentative recovery?

Despite Q2 data for advanced economies painting a bleak picture, a recovery of some sorts may be in the offing. In the UK, the Office for National Statistics said the decline was concentrated in April at the height of lockdown, with the economy bouncing back in June as restrictions eased.

Recovery seems underway in China; the economy returned to growth during Q2, the world's second-largest economy growing 3.2%. This follows a historic 6.8% Q1 slump, China's first contraction since at least 1992 when records began.

The International Monetary Fund (IMF) predicts the global economy will shrink 4.9% this year, a downgrade from previous projections. This downgrade reflects the likelihood of social distancing restrictions persisting for a longer period and the subsequent impact on consumer spending. Voluntary social distancing by people wary of exposing themselves to the risk of infection is also expected to make consumers cautious.

"The strength of this recovery is highly uncertain"

Next year, the IMF predict the global economy will expand by 5.4%; however, they stress there is a higher-than-usual degree of uncertainty surrounding its predictions. IMF Chief Economist Gita Gopinath commented: *"The strength of this recovery is highly uncertain. On the one hand, you could get positive news, you could have better news on vaccines and on treatments and greater policy support, and that can trigger a faster recovery. But on the other hand, there are important downside risks, too, which is that the virus could come back up. You could have financial tightening that could lead to debt distress. So, there are both upsides and downsides."*

It seems the only real certainty at the moment is that these are likely to remain uncertain times. Rest assured, we remain on hand to navigate any uncertainty together.

100-word briefing: the first Budget

In current terms 'The Budget is a statement made to the House of Commons by the Chancellor of the Exchequer on the nation's finances and the Government's proposals for changes to taxation.' So, when was the earliest one? It was certainly before 1860, when William Gladstone was using the red despatch box discarded in 2011 by George Osborne. Indeed, the national Budget predates the House of Commons (1341), going back at least 800 years to soon after the Magna Carta of 1215, when the equivalent of the Chancellor's despatch box was a leather bag – called a 'bougette' in Old French.